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Restaurant Business

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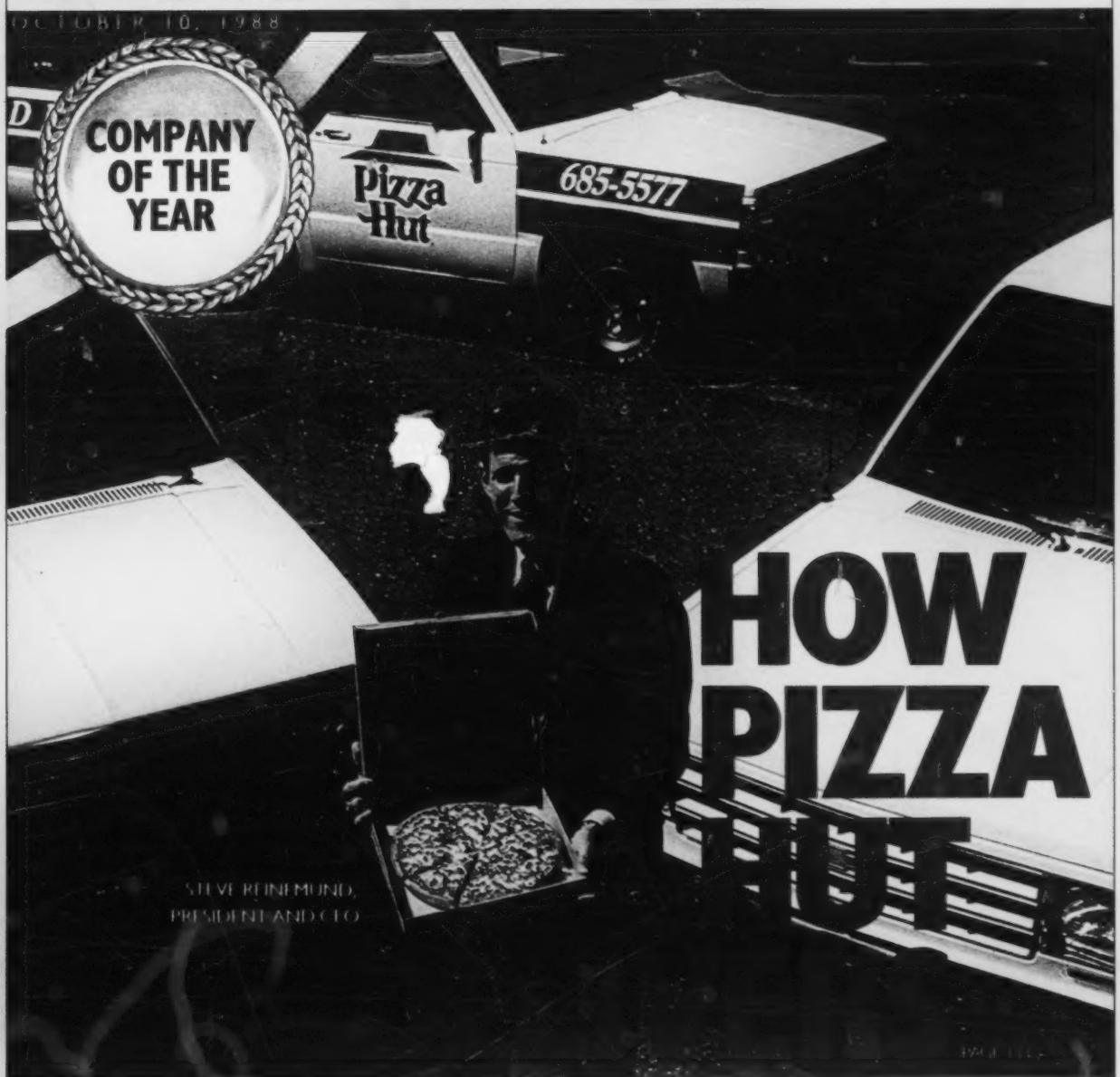
OCTOBER 10, 1988



HOW PIZZA HUT

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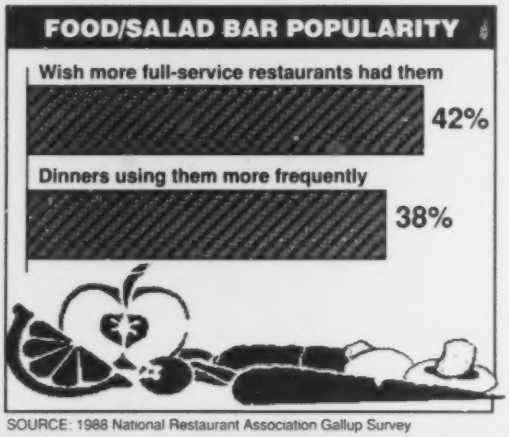
BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

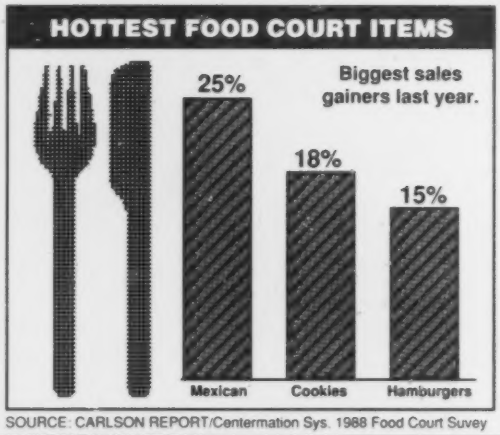
By Howard Riell



SOURCE: 1988 National Restaurant Association Gallup Survey

Self-service Is Still Strong

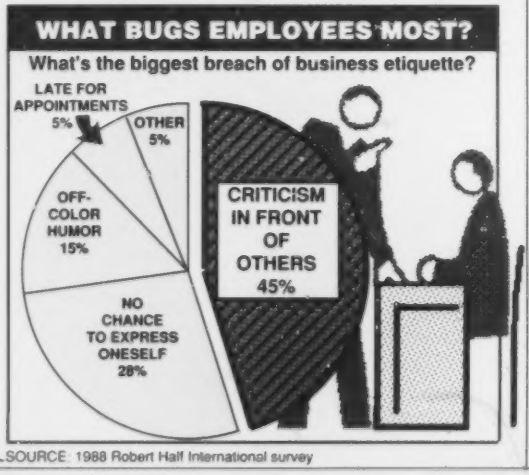
Reports that prepackaged salads have spelled the death of the salad bar, let alone the new expanded food bars, have been greatly exaggerated. As a recent National Restaurant Association Gallup survey shows, people still love stepping up and helping themselves to everything from traditional salad fare to bars offering pasta, soups, and Mexican food and other items. Forty-four percent of respondents said they would try a restaurant they'd never been to if they heard that it had a good salad or food bar. More than seven of 10 wanted desserts on them, as well.



SOURCE: CARLSON REPORT/Centermation Sys. 1988 Food Court Suvey

Hottest Food Court Foods

What sells best in food courts? According to the CARLSON REPORT newsletter, the largest sales gains last year were made by the Mexican, cookie, and burger segments. Sales of seafood, Greek food, and pizza declined by 21.88%, 12.54%, and 8.44%, respectively. For overall sales, however, the winner remains chicken, having garnered 11.51¢ of every dollar spent in food courts. Following were burgers, 8.82¢, and Mexican food, 8.48¢. Ice cream finished last, at 4.53¢. Other foods that had disappointing results were yogurt, hot dogs, and pastry/croissants.


WHAT BUGS EMPLOYEES MOST?
What's the biggest breach of business etiquette?
LATE FOR APPOINTMENTS 5%
OTHER 5%
OFF-COLOR HUMOR 15%
NO CHANCE TO EXPRESS ONESELF 28%
CRITICISM IN FRONT OF OTHERS 45%

SOURCE: 1988 Robert Half International survey

Managing Amid A Labor Shortage

In times of scarcity the idea is to keep what you've got, right? In the case of a dwindling foodservice labor supply, a few managerial tips might help stem the tide of work-force erosion. Robert Half International president Max Messmer suggests that "managers who criticize subordinates in public, suppress ideas and opinions, or show disregard for the sensibilities of others do a major disservice both to their companies and their own careers." Another consultant notes, "Management's job is to manage people, not job descriptions." Forecasts indicate that the labor market will continue to shrink.

CHARTS DESIGNED BY SHARI FANG

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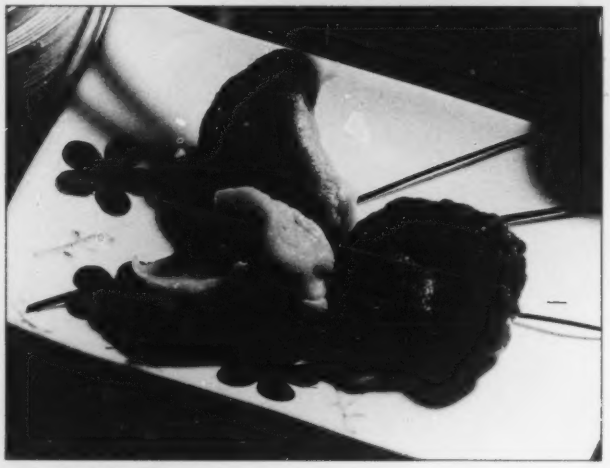

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Cover photograph by Dan Moore

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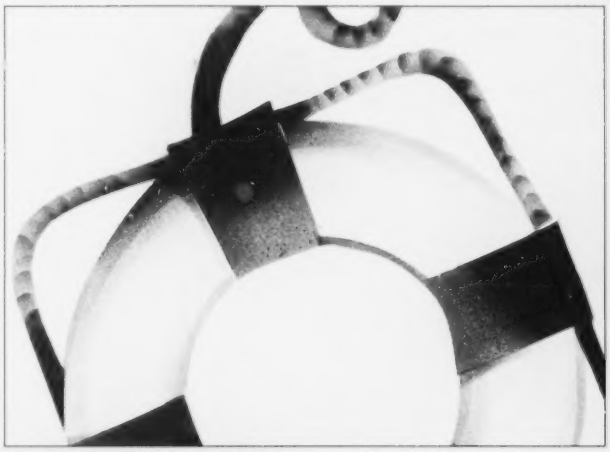
SPECIAL OFFER

Restaurant Business now has available specially prepared reprints of the **1988 RESTAURANT GROWTH INDEX** and the **1988 MAJOR FORCES IN FRANCHISING.** These annual studies are invaluable reference tools.

The reprints are available for $5 per copy. Direct orders and inquiries to: Editor Peter Berlinski, *Restaurant Business* Magazine, 633 Third Avenue, New York, NY 10017.



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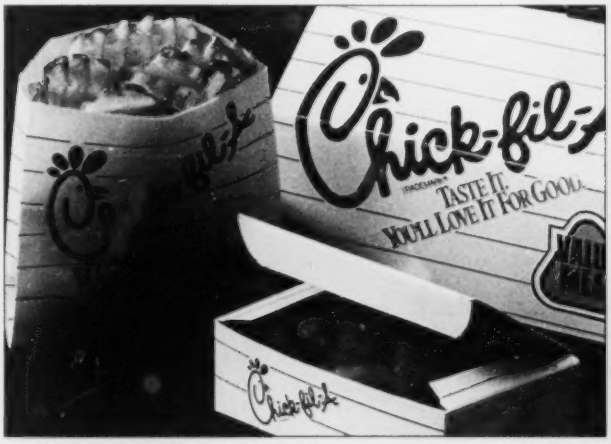

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CHICKEN

Despite steady increases in chicken consumption, not all of the players are faring well.

Customers at Kentucky Fried Chicken consumed almost 3 billion pieces of chicken in domestic units last year.

BY JACQUE KOCHAK

The chicken segment presents a puzzling picture. The talk these days is about a mature market, flat sales, and the fight for market share. Some operators flourish while others are struggling. More than one company is in bankruptcy proceedings.

Yet chicken consumption continues to rise. According to the National Broiler Council, Americans ate 65.3 pounds of chicken per person in 1988, compared to 62.6 pounds in 1987. That's an increase of 2.7 pounds per capita, on top of an increase of four pounds per capita in 1987 over 1986.

In fact, chicken consumption has jumped 100% against a slow 22% increase in beef consumption over the past 20 years, according to the U.S. Department of Agriculture. Recently, poultry consumption exceeded beef and pork for the first time.

Nevertheless, a CREST survey of 13,000 households by Park Ridge, IL-based GDR Enterprises Inc. shows that consumer expenditures in chicken restaurants rose only 1% for the 12 months ending February 1988, compared to a 4% increase for the same period last year and double-digit increases four years ago.

Part of the situation may be traced to consumer concerns about the linking of salmonella food poisoning to chicken. But the real dilemma may lie in operational problems and the tight market.

In the past, chicken chains typically built low-cost, no-frills buildings and concentrated on their signature product, chicken. But then, following the lead of the rest of the fast-food industry, chicken operators began to build

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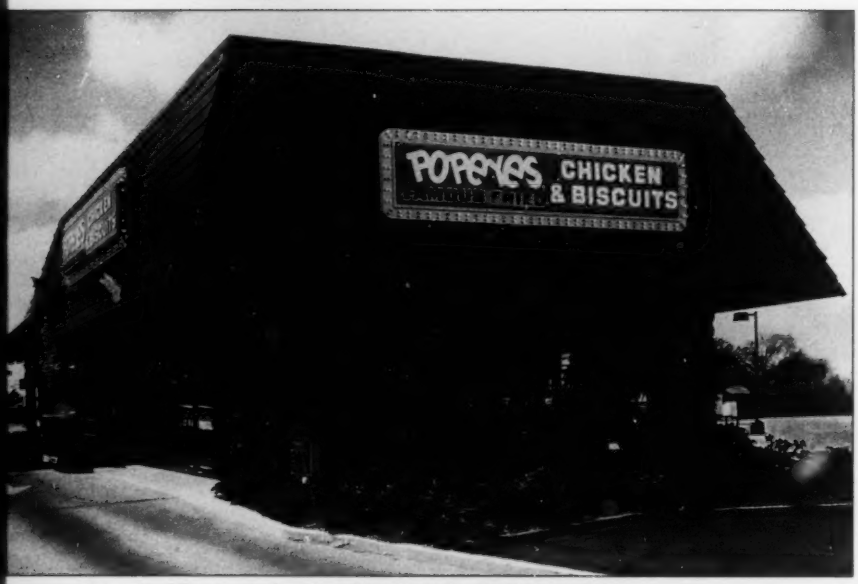
Jacque Kochak is a freelance writer who specializes in foodservice. She is based in Yorktown Heights, NY.



A typical Popeyes freestanding fast-food chicken unit.

The chicken segment faces a tight and competitive market, with slowed unit expansion and flat sales.

larger, more elaborate units and modestly expand their menus. Sometimes trouble followed.

"The chicken business hasn't changed a lot; chicken is basically a take-out dinner item," says one executive. "We've all tried to improve lunch sales and increase dine-in business. Inroads have been made, but not enough to generate high sales volumes. You can't justify putting in large, expensive units; the margin just isn't there."

Nearly all players agree that the chicken segment is no longer growing, and that competition is intense.

COMPETITION. "Everybody is trying to grab business from the others," says Doug Valenski, national promotions manager for San Antonio-based Church's Fried Chicken Inc. "The segment is not expanding, and it is our impression that overall sales are going to stay flat. It is really a fight for market share."

"What we're seeing is consolidation," adds Gregg Reynolds, vice president of public affairs for Louisville-based Kentucky Fried Chicken, a PepsiCo subsidiary. "It's a classic case of well-managed chains doing well, and less-well-managed chains not doing well."

It is interesting to note that one of the biggest competitors and the second largest purveyor of fast-food chicken after KFC is not a chicken chain but McDonald's. McDonald's is such a factor in the chicken segment that whenever the hamburger giant runs a big promotion on its Chicken McNuggets, a tremor runs through the segment as wholesale chicken price increases are anticipated.

Meanwhile, the National Broiler Council foresees some price increases in 1989 because of this year's drought, which has cut into feed supplies. The increase may be 5% to 10%, says Bill Roenigk, the council's director of economic research, but there may very well be less beef and pork available, so chicken will still be an attractive alternative.

THE GIANT. Kentucky Fried Chicken is far and away the biggest player in the chicken segment, with 4,814 domestic units and 2,708 overseas operations. KFC's worldwide system sales in 1987 topped $4 billion, with U.S. sales reaching $2.7 billion—which accounts for 45% of the $6 billion quick-service chicken sales.

KFC alone sold 326 million chickens in the U.S. in 1987, and served 807 million meals. Customers at KFC consumed almost 3 billion pieces of chicken in domestic units, or more than 12 pieces for every man, woman, and child in the country.

The company operates the largest fast-food restaurant in the world, in China, with 500 seats on three floors. KFC opened the restaurant in November 1987, with its joint venture partners, the Beijing Corp. of Animal Production, Processing, Industry, and Commerce and the Beijing Travel and Tourism Corp. The Chinese KFC is located on one of the busiest intersections in Beijing, where an estimated 150,000 people stream past daily. The restaurant features 12 cash registers to quickly handle between 2,000 and 3,000 customers daily.

"We want to continue to grow. We want to outperform the industry, and take market share," says Reynolds. Average unit volumes nudged $660,000 in 1987. That's a 6% increase over 1986. In fact, in 1982 average unit sales were only $388,000; the company has posted attractive increases in average unit volume every year since.

Kentucky Fried Chicken's current efforts are concentrated on building

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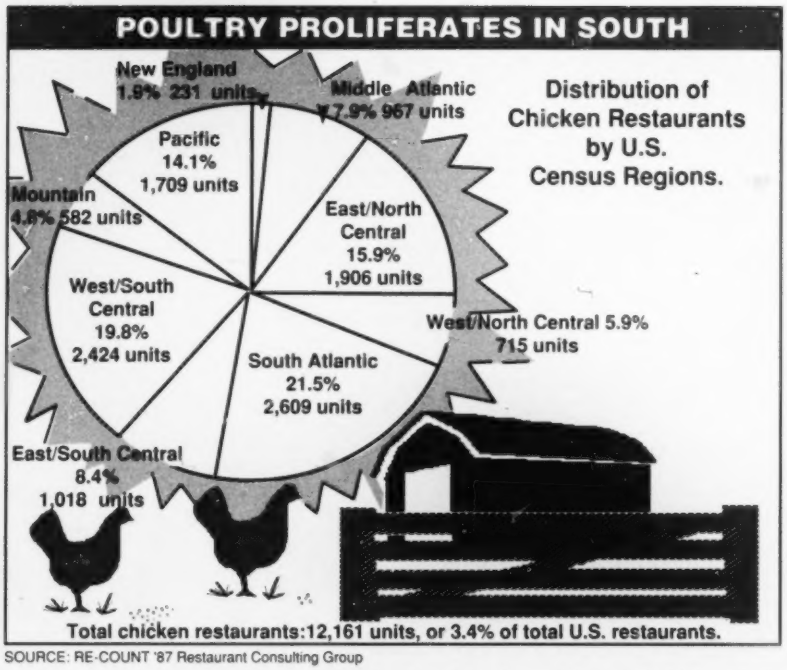
POULTRY PROLIFERATES IN SOUTH
Distribution of Chicken Restaurants by U.S. Census Regions.
New England 1.9% 231 units
Middle Atlantic 7.9% 967 units
Pacific 14.1% 1,709 units
Mountain 4.8% 582 units
East/North Central 15.9% 1,906 units
West/South Central 19.8% 2,424 units
West/North Central 5.9% 715 units
South Atlantic 21.5% 2,609 units
East/South Central 8.4% 1,018 units
Total chicken restaurants:12,161 units, or 3.4% of total U.S. restaurants.

SOURCE: RE-COUNT '87 Restaurant Consulting Group

CHART BY SHARI FANG.

Broadening menus and moving away from their signature product has spelled trouble for some chicken chains.

lunch business; like most chicken fast-food chains, most of KFC's sales come from dinner. "Lunch is a big opportunity for us," says Reynolds. "We opened our assault last year with Chicken Littles for 39¢. Chicken Littles have a good price/value appeal, and are squarely in the ballpark of the small hamburgers at hamburger outlets." The addition of Chicken Littles increased traffic in stores, and that allowed the company to add shoestring french fries, which can only be held five to seven minutes. Now, several other lunch-oriented products are in test, including fresh salads and chargrilled chicken.

For several years, KFC has been testing home delivery, which could be a useful complement to a business that is 85% takeout. "We want to know everything there is to know about home delivery," says Reynolds.

NEW HEAD START. Church's Fried Chicken, the second largest chain in the chicken segment, has suffered some reverses. But competitors see the chain as possessing some real strengths and expect good things from new president and chief executive officer Ernest Renaud, formerly head of the Long John Silver's seafood chain. Renaud succeeded J. David Bamberger, who remains chairman. Bamberger had stepped in to fill the executive slot when Richard Sherman left in 1987 after he was involved in an unsuccessful leveraged buyout attempt.

Church's was operating 1,495 units at the end of 1987, down from 1,549 in 1985. The company's 1987 systemwide sales were $533.8 million, down from $639.9 million in 1985.

In response, aggressive action was taken in 1987 to combat declining sales. The company determined that a very simple system had become com-

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Church's adopted "Big Pieces and Little Prices" as its marketing theme.

Chick-fil-A specializes in a filet sandwich, rather than a bone-in product.

Chicken consumption has jumped 100% against a slow 22% increase in beef consumption over the past 20 years.

plicated with too many products and promotions that slowed service and confused customers and employees, increased labor at store level, and required too much valuable management time. All multi-unit managers were equipped with stopwatches to heighten awareness of service times.

Units were spruced up, with lightened store exteriors, and the word "fried" was dropped from store signs.

The bureaucracy at headquarters and in field operations was trimmed, with field operations reorganized from four regions to nine zones so that management would be in closer touch with stores. New pay and bonus plans were also instituted.

Possibly most important of all, Church's reconfirmed its identity: small stores offering low prices, high value, and dependable products. Church's now sees itself as best serving its market with small, walk-up, drive-thru, take-out stores requiring a low capital investment.

As a result, new stores will primarily be mini walk-up or drive-thru models located on someone else's real estate.

"Big pieces and little prices," the basis of Church's reputation, was adopted as the marketing theme for 1988. "We're trying to become the low-cost provider within the industry," says Douglas Valenski, national promotions manager.

The company also introduced a "Chicken Big" sandwich that sells for 99¢ in an attempt to spark lunch business. In so doing, Church's slyly capitalized on KFC's huge advertising budget by pointing out that this sandwich is "big," unlike KFC's Chicken Littles. The sandwich, introduced in January, brought a lot of new people into units, says Valenski. Then Church's followed up with a $3.99 promotion on eight pieces of dark meat, a good value for customers and a profitable alternative for Church's.

The company also determined that in the last few years it had given up too easily, closing some stores prematurely. Closed store properties were surveyed, and 14 were targeted for reopening.

As a result of these efforts, average unit volumes of about $400,000 have turned around after two years of decline. Overall sales are up about 2%, with transaction counts up 5% to 6%, says Valenski.

SPICY NICHE. The third largest chicken chain in the country, New Orleans-based Popeyes Famous Fried Chicken & Biscuits, has carved out a niche for itself with a spicy Cajun chicken and red beans and rice. Average unit volumes are among the highest in the segment, at $730,000. It is clear, however, that the fast growth days are over.

Recognizing this evolution, founder Al Copeland restructured his two companies, Popeyes and Copeland's Cajun American Cafes. A management company, Al Copeland Interests Inc., was formed to oversee financial planning of the two chains. Copeland will serve as chairman of the board of directors. Copeland relinquished his position as president of Popeyes to James A. Flynn, previously with the Brown Group Inc. of St. Louis.

Popeyes has always been a little different from the competition, and that difference was underscored in February when the company tested with a battered crawfish platter that is selling out in the South.

The company's expansion plans continue to be among the most aggressive

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KFC's average unit volumes nudged $660,000 in 1987, a 6% increase.

One of the biggest competitors and the second largest purveyor of fast-food chicken is not a segment chain at all—it's McDonald's.

in the segment, with some 100 new units expected to open in 1988.

Charlotte, NC-based Bojangles' of America has some 220 units throughout the Southeast. At press time, the company was in the process of being sold to its largest franchisee, Carabo Inc. of Greenville, SC, by parent Horn & Hardart. "At this point, for a lot of reasons, including the impending sale, I have to say 'No comment'," said vice president of marketing John Pietro.

Bojangles' has been experiencing difficulties since about 1986, troubles that observers attribute to expanding too quickly and to problems with defining a position. Nevertheless, the company's average unit volumes are among the highest in the segment, at $750,000.

In addition to fried chicken, Bojangles' serves breakfast and derives about a third of sales from that daypart. Breakfast, along with more than one kind of chicken, has helped to broaden the company's customer base.

Atlanta-based Chick-fil-A, while still a regional company, is the fourth largest chicken chain with 375 units in 31 states. Chick-fil-A specializes in a chicken filet sandwich, rather than the standard fried bone-in product. The majority of sales derive from the lunch daypart rather than dinner.

Chick-fil-A also departs from the competition in that most units are located in malls. In fact, Chick-fil-A does not really go head to head with other chicken chains. Chick-fil-A's competition is other fast-food operators serving lunch in malls.

The company has only seven freestanding units, but is considering expanding freestanding units more aggressively. "There are only so many malls, and in some areas of the country there just aren't any more malls available," says Don Perry, manager of public relations.

The average unit volume for a mall unit is $574,000, says Perry. That figure is higher for freestanding units, which are larger (seating about 100 people, while mall units utilize food-court seating) and offer extended hours. Of course, the cost of building a freestanding unit is also higher.

The freestanding units also offer a signature breakfast program consisting of a made-from-scratch biscuit with egg, sausage, or other fillings; a cinnamon roll; juice; coffee; and eggs. The company has introduced a new design and decor package, which includes new uniforms. New product introductions include "waffle" fried potatoes and a waffle brownie with walnuts.

Perry says that the company is still in a growth mode. "We're still going into a lot of new markets," says Perry. In fact, the company plans to open 25 to 30 new locations a year in the future.

Chick-fil-A's 1987 systemwide sales approached $203 million, an increase of 11% over 1986. The increase is attributed mainly to the opening of 19 new units.

DIFFICULTIES. Besides Bojangles', several other upscale chicken chains have encountered difficulties of one kind or another. Grandy's, Mrs. Winner's Chicken & Biscuits, and Sisters Chicken & Biscuits have all been forced to take a hard look at their images and begin efforts to reposition.

Dallas-based Grandy's has seen average unit volumes decline from $983,000 two years ago to $925,000 this year—but that figure is still high for the segment. The sales decline has been blamed on economic problems in the Southwestern markets where Grandy's is strong, as well as on problems in penetrating newer markets.

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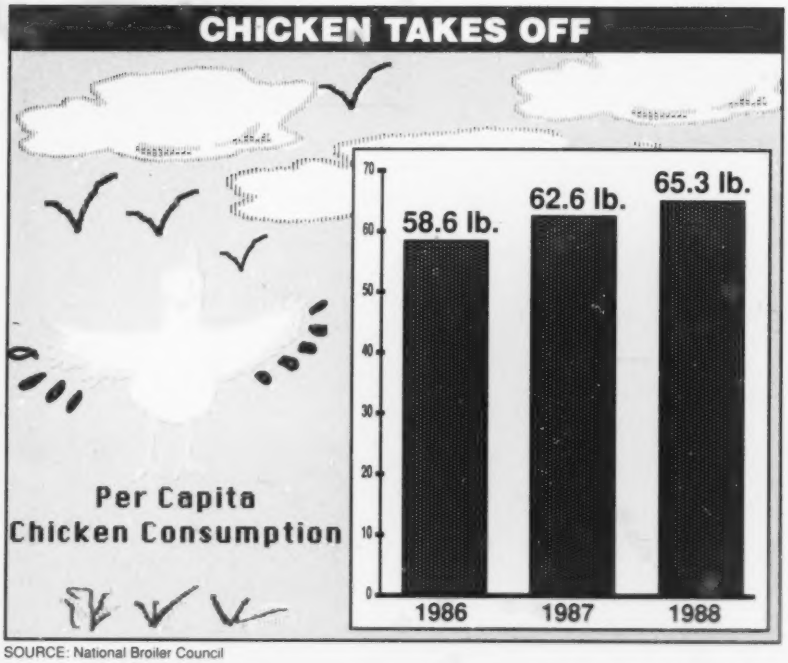

SOURCE: National Broiler Council

CHART BY SHARIF ANG.

Current consumer concerns about health have prompted fried-chicken chains to experiment with baked or broiled items.

The company projects 1988 system-wide sales of $196 million, up from $182 million in 1987. Grandy's is now part of Anwar Soliman's American Restaurant Group, based in Newport Beach, CA. Soliman's lending agreements have placed a cap on Grandy's company-store expansion, so unit growth has been slowed.

In trying to reestablish its place in the customer's mind as a fast-food restaurant, Grandy's recently rolled out a line of sandwiches including a fried filet of chicken breast sandwich and a country-fried steak sandwich. The sandwiches cost $2.29, or $3.29 with a choice of two vegetables. Grandy's is also emphasizing takeout; drive-thru sales have climbed to 33% of total volume.

Grandy's differs from a KFC or a Church's because sales are spread out more evenly through all dayparts. A self-service breakfast bar contributes to breakfast sales, which make up 20% of the total. Lunch and dinner each account for 30% to 35% of the total, with snacks making up the rest.

Mrs. Winner's Chicken & Biscuits, based near Nashville, TN, has seen difficult times in recent years as average unit volumes dipped to $560,000. The 145-unit chain is a division of Winner Corp., a publicly owned company that is also a Wendy's franchisee. The company has closed 10 stores in Baton Rouge, and sold its $4.5 million headquarters.

The company is betting on a new menu line called Southern Originals, which includes selections of meat loaf, pork chops, pot roast, hamburgers, steak, fish, and chicken and dumplings, served with two vegetables and a biscuit for $2.99. Only one entree is offered each day in rotation. The Southern Originals help move Mrs. Winner's away from a dependency on chicken, and according to management, consumer response has been good.

Mrs. Winner's is also very dependent on breakfast, which generates almost 40% of sales. The restaurants serve a biscuit line as well as traditional morn-

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Mrs. Winner's Southern Originals line moves the chain away from chicken.

A survey reports consumer spending in chicken units rose only 1% last year, compared to a 4% increase for the previous year.

ing platters, and are experimenting with muffins and breakfast bars.

However, the success of McDonald's biscuit breakfasts has been eating away at Mrs. Winner's breakfast business. During the first quarter of 1988, Mrs. Winner's breakfast sales fell 6% when McDonald's heavily promoted its biscuit sandwiches.

Westlake, OH-based Sisters Chicken & Biscuits is trying to reestablish its identity with customers as a chicken purveyor. Observers say that Sisters' problems began when the company began adding too many other products, such as salad bars and sandwiches, as well as fajitas.

In an attempt to attract new, young customers, Sisters has rolled out a new marketing campaign using a musical motif of a 1960s pop song "Shake a Tail Feather."

Sisters, with 63 units primarily in Ohio, last year was sold by Dublin, OH-based Wendy's to the largest franchisee, SIS Corp., for $14.5 million.

One of the hardest-hit companies in the chicken segment is Los Angeles-based Pioneer Take-Out Corp., which is now in Chapter XI bankruptcy proceedings. The company is in the process of being acquired by the privately owned Intercoastal Group, says court-appointed president Tom Wheelock. Sales for 1988 are projected to be $65 million.

Pioneer's 350 units have contracted to 210, mostly in Southern California. Playing a part in Pioneer's downfall was intense competition in the chicken segment—especially from El Pollo Loco, whose units are concentrated in California—but other factors were more important.

"A war between franchisees and the former owner (H.R. Kauffman) caused the problems," says Wheelock. "Disagreements over the amount of sup-

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port franchisees were getting caused a rash of lawsuits back and forth, and cash stopped coming in."

Wheelock is optimistic about Pioneer's future, however. The company has started to advertise for the first time, with a theme that plays off KFC's high profile. Advertising points out that Pioneer Take-Out's chicken breasts are cut into two pieces instead of KFC's standard three.

REGIONAL. The chicken segment has always included a number of good-sized regional chains. Among them is Richmond, VA-based Golden Skillet International Inc., owned by International Dairy Queen.

With the exception of 20 units in Puerto Ri[illegible]he balance of Golden Skillet's 83 units is located in Virginia and North Carolina. The company has no plans to open new units.

"We are paying a lot of attention to upgrading stores and remodeling," says president Charlie Cocotas. "We have offered franchisees attractive financing opportunities to remodel interior, with new menu boards." Franchisees can borrow as little as $2,500 for Operation Facelift, as the upgrading program is called.

The company is also testing additions to its menu that dovetail into the primary business, which is takeout. Both spaghetti dinners and hot submarine sandwiches are being tested, with the object of expanding the customer base. Golden Skillet has also added a fish sandwich and a country-fried steak sandwich.

Golden Skillet's 1987 systemwide sales reached $28 million in 1987, with average unit volumes of about $375,000. Unit sales are up slightly over past years. "Nothing dramatic, but compared to the rest of the segment we're doing well," Cocotas notes.

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Because of the drought, which has cut into feed supplies, price increases of 5% to 10% for chicken are predicted.

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TOP CHICKEN CHAINS

Company Headquarters	1987 Systemwide Sales	Number of units
Kentucky Fried Chicken Louisville,KY	$4 billion	7,522 (4,814*)
Church's Fried Chicken San Antonio,TX	$533.8 million	1,495
Popeyes Famous Fried Chicken New Orleans,LA	$460 million	703
Chick-fil-A Atlanta,GA	$203 million	375
Grandy's Dallas,TX	$182 million	200

*domestic

CHART BY SHARI FANG

Much of the segment's sales are derived from take-out dinner business; current efforts aim at expanding to other dayparts.

Another regional chain that is holding its own is Austin-based Golden Fried Chicken of America, with 68 units in Texas and three under construction. Two or three additional units will open this year. President Steven Neeley says that, overall, sales are flat, but the flatness can be attributed to the sluggish Texas economy.

Golden Fried Chicken serves a crispy fried chicken product. Small buildings seat about 50, with drive-thru service available. Golden Fried Chicken differs from its larger competitors, such as KFC and Church's, because a much larger percentage of sales is derived from lunch; sales are equally divided between lunch and dinner. Neeley attributes the strong lunch traffic to the fact that Golden Fried Chicken has always emphasized development in small towns. The introduction of chicken fajitas has also helped lunch traffic, he notes. The fajita consists of baked breast meat served on a flour tortilla served with freshly made *pico de gallo* and guacamole. Neeley says that chicken fajitas are a successful line extension in the Texas market, where Mexican food is very popular.

Another chicken purveyor that is attempting to marry chicken with Mexican food is Phoenix-based El Pollo Asado. The chain specializes in marinated, charbroiled chicken. El Pollo Asado operates 52 units, mainly in the Southwest but also in North Carolina, and has kept up a rapid expansion pace by opening about 15 units within the last year.

Another 18 units are expected to open this year. Presently, 20 of the stores are company-owned; in the fu-

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Grandy's Grannies provide extra amenities to customers.

Sisters is trying to reestablish its identity as a chicken purveyor.

The challenge for chicken chains is to generate an attractive return on investment from traditionally low-volume units.

ture, all growth will be through franchising.

In April, the company introduced its new El Pollo Asado Mexican Cafe, and nine units have already been converted. Eventually, all El Pollo Asado stores will become Mexican cafes. The addition of a complete line of Mexican foods along with beer, wine, and margaritas enhances the centerpiece of the menu, charbroiled chicken. The cafes offer self-serve drink bars and salsa bars, and could be compared to the popular Mexican "patio concepts."

Customer reaction to the changes has been dramatic: Sales have doubled in converted units. In the new restaurants, chicken generates only 35% of sales, with Mexican food contributing 50% of the sales mix.

"Our research shows us that people eat chicken once or twice a month," says Richard Peterson, El Pollo Asado president. "They eat Mexican food once a week or more. In addition, our average check is a little higher." Peterson says that the change in concept was spurred by the difficult economics of doing business in the chicken segment. "When a building costs $700,000, you have to generate $1 million volumes," he says. "You just don't do that with a single product." In fact, units that have not yet been converted are posting sales of only $650,000 yearly, according to Peterson.

Another charbroiled chicken chain, El Pollo Loco, is a fierce competitor in California and in many locations *is* ringing up those $1-million volumes. Competitors are skeptical that the chain could do as well outside of California, however, because of the highly regional appeal of its Mexican-style offerings.

La Mirada, CA-based El Pollo Loco is a 100-unit subsidiary of TW Service's Denny's. The test of El Pollo Loco's popularity in new markets is coming, as the company plans to open as many as 35 franchised stores this year throughout Florida, Texas, and Arizona, as well as 40 additional company stores in California.

The company has entered the international marketplace, with an agreement signed with EPL Japan to open 484 units in Japan over the next 11 years. The company has also signed development deals in Australia and New Zealand, and has plans to enter Canada, Southeast Asia, and Europe.

FUTURE OUTLOOK. While chicken continues to grow in popularity, chains in the chicken segment are faced with a real challenge: how to generate an attractive return on investment when chicken outlets have never been famous for high volumes.

Some operators are adding menu items, but that route has proven to be risky for some as the concepts have lost their identity with the public. Others are retrenching, falling back on known strengths and returning to the days of small, simple but attractive units that represent a small investment. With a small investment, obviously, generating high volumes is not as important.

Finally, all operators in the segment are keeping anxious eyes on Kentucky Fried Chicken, as PepsiCo's giant, well-managed subsidiary continues to expand—quite often to the detriment of competitors.